

UAC INSURANCE MUTUAL

Board of Trustees Meeting

Thursday, December 17, 1998, 9:30 a.m.

Utah Association of Counties Offices

A G E N D A

- | | | |
|-------|--|---------------|
| 9:30 | Call to Order & Welcome New Trustees | Gary Herbert |
| | Review of Board Members Absent | Gary Herbert |
| | Approval of October 15 and December 10, 1998 Minutes | Gary Herbert |
| | Officers Elections | Dan McConkie |
| | Attendance of Utah Local Governments Trust Representatives at Convention(s) | Brent Gardner |
| | Approval of 1999 Reinsurance Agreements | Brett Rich |
| | Broker Report | John Chino |
| | Director's Report | Brett Rich |
| | Set Date and Time for Closed Meeting
to Discuss Pending or Reasonably Imminent Litigation | |
| | Action on Litigation Matters | Kent Sundberg |
| 11:30 | Lunch | |
| | Set Date and Time for Closed Meeting
to Discuss the Character, Professional Competence, or Physical or Mental Health of an Individual | |
| | Summary of September & October 1998 Financial Statements | Brett Rich |
| | 1999 Meeting Schedule | Gary Herbert |
| | Other Business | Gary Herbert |
| 1:30 | Adjourn | |

UACIM BOARD OF TRUSTEES MEETING

MINUTES

December 17, 1998, 9:30 a.m.
Utah Association of Counties Offices

BOARD MEMBERS PRESENT

Gary Herbert, *President*, Utah County Commissioner
Jerry Hess, *Vice President*, Davis County Deputy Attorney
Dannie McConkie, *Secretary-Treasurer*, Davis County Commissioner
Tony Dearden, Millard County Commissioner
Royal Norman, Box Elder County Commissioner
Tex Olsen, Sevier County Commissioner
Kent Petersen, Emery County Commissioner
Ed Phillips, Millard County Sheriff
Sarah Ann Skanchy, Cache County Council Member
Kent Sundberg, Utah County Deputy Attorney

OTHERS PRESENT

Brent Gardner, UAC Executive Director
Brett Rich, Director, UACIM
Sonya White, UACIM Administrative Assistant
John Chino, GRMS Account Executive
Doug Alexander, McLarens Toplis Claims Manager

CALL to ORDER & WELCOME NEW TRUSTEES

Gary Herbert called the meeting to order, welcomed those in attendance and introduced the newest Members of the Board, Commissioner Royal Norman, Commissioner Kent Petersen and Council Member Sarah Ann Skanchy.

REVIEW of BOARD MEMBERS ABSENT

All Board Members were in attendance.

APPROVAL of MINUTES

The minutes of the Board of Trustees meeting held October 15 and the telephonic conferences held December 10, 1998 were previously sent to the Board Members for review. Dan McConkie made a motion to approve the minutes as written. Chad Johnson seconded the motion, which passed unanimously.

OFFICERS ELECTIONS

Pursuant to Article 6.1 of the Bylaws, *The principal offices of the Board shall be...elected by and from among the Trustees at the first Board meeting following each annual meeting of the Members.* Current officers are Gary Herbert, *President*; Jerry Hess, *Vice President*; Dan McConkie, *Secretary-Treasurer*. Sarah Ann Skanchy made a motion to elect the current officers as constituted. Dan McConkie seconded the motion, which passed unanimously.

ATTENDANCE of COMPETITORS at CONVENTIONS

Brent Gardner explained that representatives from Utah Local Governments Trust (who are direct competitors of the UAC Insurance Mutual) continue to "show up" at the Utah Association of Counties (UAC) Conventions. These conventions are assembled by UAC for their members who include the UACIM member counties. Brent is concerned that the Trust may be trying to solicit business away from UACIM and recommended that the UACIM Board request that the UAC Board restrict competitors from attending UAC Conventions. Sarah Ann Skanchy made a motion recommending that the UAC Board draft a policy concerning the attendance of direct competitors at the UAC Conventions. Royal Norman seconded the motion, which passed. Chad Johnson and Ed Phillips opposed the motion.

APPROVAL of 1999 REINSURANCE AGREEMENTS

Brett Rich reported that he met with representatives from Signet Star and APEX to continue negotiations relating to the reinsurance coverage agreement. They agreed to everything listed in the draft agreement except for the Y2K Exclusion, which is standard through the insurance industry. Brett explained that the reinsurer carrier on the property portion of the policy is Reliance Insurance Company. Reliance, and nearly all property insurers, now insists on Y2K exclusion. Signet Star is the reinsurer on the liability portion of the policy. Brett is negotiating to keep Y2K liability losses silent as to the liability section of the coverage agreement. If counties are taking precautionary steps to upgrade and elevate Y2K problems then they should have coverage. It is almost impossible to calculate actuarially what Y2K losses may occur.

Brett reported that he intends to negotiate coverage for nursing homes to be included in the coverage agreement. The Uintah County Care Center is covered under a separate policy for an additional premium. Brett recommended that, if coverage can be included for an approximate premium of \$5000, the County should not be charged separately—the Board concurred.

Brett explained that the limits under the reinsurance program for liability and DIC (earthquake & flood) have been increased. Jerry Hess made a motion to credit those counties who were charged for the additional limits on their 1999 premium invoice. Chad Johnson seconded the motion, which passed unanimously.

Brett reviewed the draft reinsurance agreement with the Board. Ed Phillips made a motion approving the reinsurance agreement through APEX and the coverage agreement as modified by Brett Rich. Chad Johnson seconded the motion, which passed unanimously.

BROKER REPORT

John Chino had no items to report but explained that he is available to answer any questions relating to the reinsurance program, etc.

DIRECTOR'S REPORT

Brett Rich reviewed an annual surplus chart showing the amounts of surplus per year and the total amount of surplus as of November 1998 at \$2,856,735 (see attachment #1). Brett reviewed a total incurred loss comparison by year chart to show the Board that the 1998 total incurred losses are reaching almost as high as in 1994, which was the worst year for the Mutual (see attachment #2). Brett reviewed a total loss experience chart showing the amounts of incurred losses per year by type (see attachment #3). Loss prevention in the area of automobiles needs to be looked at carefully by the Loss Control Manager.

Brett recommended to the Board that they approve a six-percent increase in the claims administration fee to include improvements to the operating system. McLarens has determined that two people can operate the in-house claims administration for the Mutual. Dan McConkie made a motion to approve the six-percent increase, which has been budgeted for the 1999 year, and directed Brett to clarify the use of outside investigators. Kent Sundberg seconded the motion, which passed unanimously.

Brett reported that he is scheduled to meet with Senator Mansell on Monday regarding the sponsorship of Legislation relating to the *Regulation of Public Agency Insurers*.

Brett reported that Tooele County has reviewed the insurance proposals and will award the contract on Monday. In Brett's discussions with the County, they indicated that Olympus quoted a premium \$20,000 less than the Mutual but the Mutual's program does not have the deductibles and exclusions that are included in the Olympus program. The Board members will contact the Tooele Commissioners to answer any questions prior to their decision on Monday.

SET DATE and TIME for CLOSED MEETING

Chad Johnson made a motion to set the date and time for a closed meeting to begin at 12:10 p.m. on December 17, 1998, to discuss pending or reasonably imminent litigation. Tony Dearden seconded the motion, which passed unanimously.

Sarah Ann Skanchy made a motion to conclude the closed meeting at 12:30 p.m. on December 17, 1998. Jerry Hess seconded the motion, which passed unanimously.

ACTION on LITIGATION MATTERS

Sarah Ann Skanchy made a motion authorizing settlement on claim number 801JUA98841701 and 801JUA98841702 in the amount of \$52,682. Chad Johnson seconded the motion, which passed unanimously.

Tony Dearden made a motion authorizing settlement on claim number 801IRO988429 up to an amount of \$50,000. Kent Petersen seconded the motion, which passed unanimously.

Kent Petersen made a motion authorizing settlement for the Mutual's share on claim number 801BOX955001 in the amount of \$37,500. Sarah Ann Skanchy seconded the motion, which passed unanimously.

Kent Sundberg made a motion authorizing settlement on claim number 801SAJ988434 in the amount of \$67,159.12. Sarah Ann Skanchy seconded the motion, which passed unanimously.

SUMMARY of SEPTEMBER and OCTOBER 1998 FINANCIAL STATEMENTS

Brett Rich reviewed the financial statements for the months ending September and October 1998 with the Board. Section five on page nine of the October statement lists the surplus notes and interest earned to-date of the five counties owed—Davis, Emery, Garfield, San Juan and Washington. Brett is working with the Insurance Department to get the approval of the Commissioner to begin repaying the surplus notes.

OTHER BUSINESS

Brent Gardner reported that it is time to replace the Association's vehicle used by Brett Rich. Dan McConkie made a motion to approve the purchase of a vehicle up to the budgeted amount including either the trade-in value or sale amount. Chad Johnson seconded the motion, which passed unanimously.

The next meeting of the Board of Trustees will be held on January 22, 1999 at 9:30 a.m. at the UAC offices.

Approved on January 22, 1999

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Dannie R. McConkie, *UACIM Secretary-Treasurer*
Davis County Commissioner

Liability Reinsurance Agreement

DECLARATIONS

Reinsured: Utah Association of Counties Insurance Mutual
Salt Lake City, Utah

Reinsurer: Signet Star Reinsurance Company
Wilmington, Delaware

Policy Period: 1/01/1999-01/01/2000

Policy #: 9-02-AMD-01-0002-0

Business Covered

Liability business as per the Member Coverage Agreement, including, General Liability, Law Enforcement Liability, Public Officials Errors and Omissions Liability, Employee Benefits Liability, and Automobile Liability. *Applicable only to Section III, Property business as per the Member Coverage Agreement, including Property, Auto Physical Damage, Crime, and Inland Marine.*

Limit and Retention

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Section I

\$1,000,000 Ultimate Net Loss, each occurrence, in excess of \$250,000 Ultimate Net Loss, each Occurrence.

Section II

\$1,000,000 Ultimate Net Loss, each occurrence, in excess of \$1,250,000 Ultimate Net Loss, each Occurrence.

Section III

\$2,000,000 in the aggregate, subject to a per occurrence limit of \$250,000 for Liability business and \$150,000 for Property business, in excess of \$1,530,000 aggregate attachment, including Liability and Property business, in excess of any individual maintenance deductibles.

Premium - Section I & II & III

Annual flat premium of \$426,000, payable in semi-annual installments of \$213,000 each at January 1 and July 1. Any additional insureds joining the Association or any insureds purchasing additional limits throughout the Agreement Year will be charged an additional premium.

ARTICLE III - COMMENCEMENT AND TERMINATION

This Agreement shall incept at 12:01 A.M, Mountain Standard Time, January 1, 1999, and shall remain in effect until 12:01 A.M., Mountain Standard Time, July 1, 2000, and shall apply to all losses occurring during the term of this Agreement in respect of new and renewal business.

ARTICLE IV - PREMIUM AND REMITTANCE

As respects classes of business set forth in the BUSINESS COVERED Article, the Reinsured shall pay the Reinsurer a premium of \$426,000, payable in semi-annual installments of \$213,000 at January 1 and July 1. Any additional insureds joining the Reinsured or any insureds purchasing additional limits throughout the Agreement Year, will be charged an additional premium.

ARTICLE V - TERRITORY

The territorial limits of this Agreement shall be identical with those of the Reinsured's original Member Coverage Agreement.

ARTICLE VI - EXCLUSIONS

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No Reinsurance indemnity will be afforded under this Agreement for:

- 1) Reinsurance Assumed by the Reinsured.
- 2) Workers Compensation.
- 3) Involuntary Pools, Associations and Syndicates, however, not to exclude Statutory Municipal Trusts.
- 4) Loss or liability excluded by the War Exclusion Clause (Reinsurance) attached to this Agreement.
- 5) Loss or liability excluded by the Nuclear Incident Exclusion Clause - Liability - Reinsurance - USA attached to this Agreement.

In addition to the above, all exclusions as per the Reinsured's original Member Coverage Agreement shall also be exclusions under this Agreement; provided however, that the Reinsurer shall be bound by the same interpretations and waivers as apply to such exclusions as contained in the original Member Coverage Agreement of the Reinsured.

ARTICLE VII - DEFINITIONS

"Agreement" shall mean this document and shall include any specific attachments, exhibits or addenda which are, or may hereinafter be attached hereto.

"Loss Adjustment Expense" shall mean all costs and expenses allocable to a specific claim that are incurred by the Reinsured in the investigation, appraisal, adjustment, settlement, litigation, defense or appeal of a specific claim, including court costs and costs of supersedeas and appeal bonds, and including a) pre-judgment interest, unless included as part of the award or judgment; and b) post-judgment interest; and c) legal expenses and costs incurred in connection with coverage questions and legal actions connected hereto.

Loss adjustment expense does not include unallocated loss adjustment expense. Unallocated loss adjustment expense includes, but is not limited to, salaries and expenses of employees, office and other overhead expenses, fees and expenses of independent claim adjusting organizations hired by the Reinsured or the original insured.

"Occurrence", unless otherwise defined in the Policies reinsured hereunder, shall mean each and every disaster, casualty, accident, or loss or series of disasters, casualties accidents, or losses arising out of one event.

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"Ultimate Net Loss" shall mean the amount of any settlement, award or judgment paid or payable by the Reinsured, including 100% of any Excess of Original Policy Limits as defined in ARTICLE VIII, 100% of Extra Contractual Obligations as defined in ARTICLE IX, after deduction of all recoveries, salvages, subrogations, and other reinsurance whether recovered or not, and shall include loss adjustment expense.

"Policies" shall mean each of the Reinsured's documents, binders, policies, and contracts, including the Reinsured's Member Coverage Agreement. A Copy of the Member Coverage Agreement is attached hereto and made a part of this Agreement. Any amendments to the Member Coverage Agreement will also be made part of this Agreement (i) by delivery of same to the Reinsurer by the Reinsured and (ii) as long as the modification to the Member Coverage Agreement applies also to the Reinsured's retention and (iii) does not increase the Reinsurer's limits under this Agreement.

ARTICLE VIII - EXCESS OF ORIGINAL POLICY LIMITS

This Agreement shall protect the Reinsured, within the limits hereof, in connection with any loss in excess of the limits of its original Policy, such loss in excess of the limits having been incurred because of failure by it to settle within the policy limits, or by reason of alleged or actual negligence, fraud or bad faith in rejecting an offer of settlement or in the preparation of the defense or in the trial of any action against its insured or Reinsured or in the preparation or prosecution of an appeal consequent to such action.

For the purposes of this Article, the word "loss" shall also mean any amounts for which the Reinsured would have been contractually liable to pay had it not been for the limits of the original Policy. However, this Article shall not apply where the loss has been incurred due to the fraud of a member of the Board of Directors or a corporate officer of the Reinsured acting individually or collectively or in collusion with any individual or corporation or any other organization or party, other than another Reinsured, involved in the presentation, defense or settlement of any claim covered hereunder.

ARTICLE IX - EXTRA CONTRACTUAL OBLIGATIONS

This Agreement shall protect the Reinsured within the limits hereof, where the loss includes any Extra Contractual Obligations. "Extra Contractual Obligations" are defined as those liabilities not covered under any other provision of this Agreement and which arise from handling of any claim on business covered hereunder, such liabilities arising because of, but not limited to, the following: failure by the Reinsured to settle within the policy limits, or by reason of alleged or actual negligence, fraud or bad faith in rejecting an offer of settlement or in the preparation of the defense or in the trial of any action against its insured or Reinsured or in the preparation or prosecution of an appeal consequent upon such action.

The date on which an Extra Contractual Obligation is incurred by the Reinsured shall be deemed, in all circumstances, to be the date of the original accident, casualty, disaster or loss.

However, this Article shall not apply where the Extra Contractual Obligation has been incurred due to the fraud of a member of the Board of Directors or a corporate officer of the Reinsured acting individually or collectively or in collusion with any individual or corporation or any other organization or party, other than another Reinsured, involved in the presentation, defense or settlement of any claim covered hereunder.

ARTICLE X - CLAIM REPORTS:

The Reinsured shall provide the Reinsurer with the following:

- A. Quarterly claims bordereaux listing the following for all claims:
1. Name of Entity
 2. Name of Claimant
 3. Line of Business
 4. Date of Loss
 5. Description of Loss
 6. Indemnity: Paid and Reserve
 7. Expense: Paid and Reserve
- B. Quarterly claims report for any individual claims reserved greater than \$125,000 or any claims that have bodily injuries involving any the following:
1. Brain injuries resulting in impairment of physical functions;
 2. Spinal injuries resulting in partial or total paralysis of upper or lower extremities;
 3. Amputations or permanent loss of use of upper or lower extremities;
 4. Blindness;
 5. Severe burns;
 6. Fatalities;
 7. Any claim or suit not specified above that presents an unusual exposure, e.g., sexual molestation, rape, class actions, bad faith allegations;
 8. Any other serious injury which may involve the Reinsurer's liability.
- C. Prompt notice of any occurrence or claim which may result in judgment in an amount sufficient to involve this Agreement.
- D. Any other claim information or reports requested by the Reinsurer.

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The Reinsurer shall be credited with its proportionate share of salvage or subrogation recoveries (i.e., reimbursement obtained or recovery made by the Reinsured, less the actual cost, excluding salaries of officials and employees of the Reinsured, of obtaining such reimbursement or making such recovery) on account of claims and settlements involving reinsurance hereunder.

ARTICLE XII - ERRORS AND OMISSIONS

Any inadvertent delay, omission or error shall not be held to relieve either party hereto from any liability which would attach to it hereunder if such delay, omission or error had not been made, provided such delay, omission or error is rectified upon discovery.

ARTICLE XIII - ACCESS TO RECORDS

The Reinsurer or its designated representatives shall have free access to the books and records of the Reinsured on matters relating to this reinsurance at all reasonable times for the purpose of obtaining information concerning this Agreement or the subject matter hereof.

ARTICLE XIV - TAXES

In consideration of the terms under which this Agreement is issued, the Reinsured will not claim any deduction with respect to the premium hereon when making premium tax returns to the appropriate tax authorities.

ARTICLE XV - INSOLVENCY**DRAFT**

In the event of the insolvency of the Reinsured, this reinsurance shall be payable directly to the Reinsured or to its liquidator, receiver, conservator or statutory successor on the basis of the liability of the Reinsured without diminution because of the insolvency of the Reinsured or because the liquidator, receiver, conservator or statutory successor of the Reinsured has failed to pay all or a portion of any claim. It is agreed, however, that the liquidator, receiver, conservator or statutory successor of the Reinsured shall give written notice to the Reinsurer of the pendency of a claim against the Reinsured indicating the policy or bond reinsured which claim would involve a possible liability on the part of the Reinsurer within a reasonable time after such claim is filed in the conservation or liquidation proceeding or in the receivership, and that during the pendency of such claim, the Reinsurer may investigate such claim and interpose, at its own expense, in the proceeding where such claim is to be adjudicated, any defense or defenses that it may deem available to the Reinsured or its liquidator, receiver, conservator or statutory successor. The expense thus incurred by the Reinsurer shall be chargeable, subject to the approval of the court, against the Reinsured as part of the expense of conservation or liquidation to the extent of a pro rata share of the benefit which may accrue to the Reinsured solely as a result of the defense undertaken by the Reinsurer.

In the event of the insolvency of the Reinsured, the reinsurance under this Agreement shall be payable directly by the Reinsurer to the Reinsured or to its liquidator, receiver, conservator or statutory successor, except (a) where this Agreement specifically provides another payee of such reinsurance in the event of the insolvency of the Reinsured and (b) where the Reinsurer with the consent of the direct insured or insureds has assumed such policy obligations of the Reinsured as direct obligations of the Reinsurer to the payees under such Policies and in substitution for the obligations of the Reinsured to such payees.

Should the Reinsured go into liquidation or should a receiver be appointed, all amounts due either Reinsured or Reinsurer, whether by reason of premium, losses or otherwise under this Agreement, shall be subject to the right of offset at any time and from time to time, and upon the exercise of the same, only the net balance shall be due.

ARTICLE XVI - ARBITRATION

As a condition precedent to any right of action hereunder, any dispute or difference between the Reinsured and any Reinsurer relating to the interpretation or performance of this Agreement, including its formation or validity, or any transaction under this Agreement, whether arising before or after termination, shall be submitted to arbitration. Upon written request of any party, each party shall choose an arbitrator and the two chosen shall select a third arbitrator. If either party refuses or neglects to appoint an arbitrator within thirty (30) days after receipt of the written request for arbitration, the requesting party may appoint a second arbitrator. If the two arbitrators fail to agree on the selection of a third arbitrator within thirty (30) days of their appointment, the Reinsured shall petition the American Arbitration Association to appoint the third arbitrator. If the American Arbitration Association fails to appoint the third arbitrator within thirty (30) days after it has been requested to do so, either party may request a justice of a Court of general jurisdiction of the state in which the arbitration is to be held to appoint the third arbitrator. All arbitrators shall be active or retired officers of insurance or reinsurance companies, or Lloyd's London Underwriters, and disinterested in the outcome of the arbitration, or other disinterested persons experienced and knowledgeable in the field of insurance or reinsurance. Each party shall submit its case to the arbitrators within thirty (30) days of the appointment of the third arbitrator.

The parties hereby waive all objections to the method of selection of the arbitrators, it being the intention of both sides that all the arbitrators be chosen from those submitted by the parties.

The arbitrators shall have the power to determine all procedural rules for the holding of the arbitration including but not limited to inspection of documents, examination of witnesses and any other matter relating to the conduct of the arbitration. The arbitrators shall interpret this Agreement as an honorable engagement and not as merely a legal obligation; they are relieved of all judicial formalities and may abstain from following the strict rules of law. The arbitrators may award interest and costs. Each party shall bear the expense of its own arbitrator and shall share equally with the other party the expenses of the third arbitrator and of the arbitration.

The decision in writing of the majority of the arbitrators shall be final and binding upon both parties. Judgment may be entered upon the final decision of the arbitrators in any court having jurisdiction.

The arbitration shall take place in the city where the Reinsured's principal office is located, unless otherwise mutually agreed between the Reinsured and the Reinsurer.

This article shall remain in full force and effect in the event any other provision of this Agreement shall be found invalid or non-binding.

ARTICLE XVII - CURRENCY

Whenever the word "Dollars" or the "\$" sign appears in this Agreement, they shall be construed to mean United States Dollars and all transactions under this Agreement shall be in United States Dollars.

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ARTICLE XVIII - OFFSET

The Reinsured and the Reinsurer, each at its option, may offset any balance or balances, whether on account of premiums, claims and losses, loss expenses or salvages due from one party to the other under this Agreement; provided, however, that in the event of the insolvency of a party hereto, offsets shall only be allowed in accordance with applicable statutes and regulations.

ARTICLE XIX - AMENDMENTS

This Agreement may be altered or amended in any of its terms and conditions by mutual consent of the Reinsured and the Reinsurer either by an addendum hereto or by an exchange of letters; each such addendum or letter will then constitute a part of this Agreement.

ARTICLE XX - FOLLOWING FORM AND FORTUNES

This Agreement will follow form with the Reinsured's Policies.

The liability of the Reinsurer shall follow that of the Reinsured in every case. All loss settlements made by the Reinsured shall be binding on the Reinsurer excepting those (i) not made in good faith or in a reasonably businesslike manner by the Reinsured, (ii) clearly not encompassed within the terms of the Reinsured's Member Coverage Agreement, (iii) excluded herein pursuant to ARTICLE VI, or (iv) otherwise not binding on the Reinsurer under applicable law.

ARTICLE XXI - SIGNATURES

In witness whereof, the parties have caused this Agreement to be signed in duplicate by their duly authorized representatives.

Reinsurer: *Alternative Markets Division
Signet Star Reinsurance Company*

Signature: _____

Title: _____

Date: _____

Participation: _____

Reference: _____

Reinsured: *Utah Association of Counties Insurance Mutual*

Signature: _____

Title: _____

Date: _____

WAR RISK EXCLUSION CLAUSE (REINSURANCE)

As regards interests which at time of loss or damage are on shore, no liability shall attach hereto in respect of any loss or damage which is occasioned by war, invasion, hostilities, acts of foreign enemies, civil war, rebellion, insurrection, military or usurped power, or martial law or confiscation by order of any government or public authority.

This War Exclusion Clause shall not, however, apply to interests which at time of loss or damage are within the territorial limits of the United States of America (comprising the fifty States of the Union and the District of Columbia, its territories and possessions, including the Panama Canal Zone and the Commonwealth of Puerto Rico and including Bridges between the United States of America and Mexico provided they are under United States ownership), Canada, St. Pierre and Miquelon, provided such interests are insured under original Policies, endorsements or binders containing a standard war or hostilities or warlike operations exclusion clause.

Nevertheless, this clause shall not be construed to apply to loss or damage occasioned by riots, strikes, civil commotion, vandalism, malicious damage, including acts committed by agents of any government, party or faction engaged in war, hostilities or other warlike operation, provided such agents are acting secretly and not in connection with any operations of military or naval armed forces in the country where the interests insured are situated.

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NUCLEAR INCIDENT EXCLUSION CLAUSE - LIABILITY - REINSURANCE USA

- 1) This reinsurance does not cover any loss or liability accruing to the Reassured as a member of, or subscriber to, any association of insurers or reinsurers formed for the purpose of covering nuclear energy risks or as a direct or indirect reinsurer of any such member, subscriber or association.
- 2) Without in any way restricting the operation of paragraph (1) of this Clause it is understood and agreed that for all purposes of this reinsurance all the original Policies of the Reassured (new, renewal and replacement) of the classes specified in Clause II of this paragraph (2) from the time specified in Clause III in this paragraph (2) shall be deemed to include the following provision (specified as the Limited Exclusion Provision):

Limited Exclusion Provision.*

- I. It is agreed that the policy does not apply under any liability coverage, to (injury, sickness, disease, death or destruction (bodily injury or property damage with respect to which an insured under the policy is also an insured under a nuclear energy liability policy issued by Nuclear Energy Liability Insurance Association, Mutual Atomic Energy Liability Underwriters or Nuclear Insurance Association of Canada, or would be an insured under any such policy but for its termination upon exhaustion of its limit of liability.
 - II. Family Automobile Policies (liability only), Special Automobile Policies (private passenger automobiles, liability only), Farmers Comprehensive Personal Liability Policies (liability only), Comprehensive Personal Liability Policies (liability only) or Policies of a similar nature; and the liability portion of combination forms related to the four classes of Policies stated above, such as the Comprehensive Dwelling Policy and the applicable types of Homeowners Policies.
 - III. The inception dates and thereafter of all original Policies as described in II above, whether new, renewal or replacement, being Policies which either
 - (a) become effective on or after 1st May, 1960, or
 - (b) become effective before that date and contain the Limited Exclusion Provision set out above; provided this paragraph (2) shall not be applicable to Family Automobile Policies, Special Automobile Policies, or Policies or combination Policies of a similar nature, issued by the Reassured on New York risks, until 90 days following approval of the Limited Exclusion Provision by the Governmental Authority having jurisdiction thereof.
- 3) Except for those classes of Policies specified in Clause II of paragraph (2) and without in any way restricting the operation of paragraph (1) of this Clause, it is understood and agreed that for all purposes of this reinsurance the original liability Policies of the Reassured (new, renewal and replacement) affording the following coverages:
- Owners, Landlords and Tenants Liability, Contractual Liability, Elevator Liability, Owners or Contractors (including railroad) Protective Liability, Manufacturers and Contractors Liability, Product Liability, Professional and Malpractice Liability, Storekeepers Liability, Garage Liability, Automobile Liability (including Massachusetts Motor Vehicle or Garage Liability)

shall be deemed to include, with respect to such coverages, from the time specified in Clause V of this paragraph (3), the following provision (specified as the Broad Exclusion Provision):

Broad Exclusion Provision.*

It is agreed that the policy does not apply:

- I. Under any Liability Coverage, to (injury, sickness, disease, death or destruction (bodily injury or property damage
 - a) with respect to which an insured under the policy is also an insured under a nuclear energy liability policy issued by Nuclear Energy Liability Insurance Association, Mutual Atomic Energy Liability Underwriters or Nuclear Insurance Association of Canada, or would be an insured under any such policy but for its termination upon exhaustion of its limit of liability; or
 - b) resulting from the hazardous properties of nuclear material and with respect to which (1) any person or organization is required to maintain financial protection pursuant to the Atomic Energy Act of 1954, or any law amendatory thereof, or (2) the insured is, or had this policy not been issued would be, entitled to indemnity from the United States of America, or any agency thereof, under any agreement entered into by the United States of America, or any agency thereof, with any person or organization.
- II. Under any Medical Payments Coverage, or under any Supplementary Payments Provision relating to (immediate medical or surgical relief (first aid to expenses incurred with respect to (bodily injury, sickness, disease or death (bodily injury resulting from the hazardous properties of nuclear material and arising out of the operation of a nuclear facility by any person or organization.
- III. Under any Liability Coverage to (injury, sickness, disease, death or destruction

(bodily injury or property damage
resulting from the hazardous properties of nuclear material, if

- (a) the nuclear material (1) is at any nuclear facility owned by, or operated by or on behalf of, an insured or (2) has been discharged or dispersed therefrom;
- (b) the nuclear material is contained in spent fuel or waste at any time possessed, handled, used, processed, stored, transported or disposed of by or on behalf of an insured; or
- (c) the (injury, sickness, disease, death or destruction

(bodily injury or property damage arises out of the furnishing by an insured of services, materials, parts or equipment in connection with the planning, construction, maintenance, operation or use of any nuclear facility, but if such facility is located within the United States of America, its territories, or possessions or Canada, this exclusion (c) applies only to

(injury to or destruction of property at such nuclear facility

(property damage to such nuclear facility and any property thereat.

IV. As used in this endorsement:

"hazardous properties" include radioactive, toxic or explosive properties; "nuclear material" means source material, special nuclear material or byproduct material; "source material," "special nuclear material," and "byproduct material" have the meanings given them in the Atomic Energy Act of 1954 or in any law amendatory thereof; "spent fuel" means any fuel element or fuel component, solid or liquid, which has been used or exposed to radiation in a nuclear reactor; "waste" means any waste material (1) containing byproduct material and (2) resulting from the operation by any person or organization of any nuclear facility included within the definition of nuclear facility under paragraph (a) or (b) thereof; "nuclear facility" means

(a) any nuclear reactor,

(b) any equipment or device designed or used for (1) separating the isotopes of uranium or plutonium, (2) processing or utilizing spent fuel, or (3) handling processing or packaging waste,

(c) any equipment or device used for the processing, fabricating or alloying of special nuclear material if at any time the total amount of such material in the custody of the insured at the premises where such equipment or device is located consists of or contains more than 25 grams of plutonium or uranium 233 or any combination thereof, or more than 250 grams of uranium 235,

(d) any structure, basin, excavation, premises or place prepared or used for the storage or disposal of waste, and includes the site on which any of the foregoing is located, all operations conducted on such site and all premises used for such operations; "nuclear reactor" means any apparatus designed or used to sustain nuclear fission in a self-supporting chain reaction or to contain a critical mass of fissionable material;

(With respect to injury to or destruction of property, the word "injury" or "destruction"

("property damage" includes all forms of radioactive contamination of property.

(includes all forms of radioactive contamination of property.

V. The inception dates and thereafter of all original Policies affording coverages specified in this paragraph (3), whether new, renewal or replacement, being Policies which become effective on or after 1st May, 1960, provided this paragraph (3) shall not be applicable to

(i) Garage and Automobile Policies issued by the Reassured on New York risks, or

(ii) statutory liability insurance required under Chapter 90, General Laws of Massachusetts, until 90 days following approval of the Broad Exclusion Provision by the Governmental Authority having jurisdiction thereof.

4) Without in any way restricting the operation of paragraph (1) of this Clause, it is understood and agreed that paragraphs (2) and (3) above are not applicable to original liability Policies of the Reassured in Canada and that with respect to such Policies this Clause shall be deemed to include the Nuclear Energy Liability Exclusion Provisions adopted by the Canadian Underwriters' Association of the Independent Insurance Conference of Canada.

*NOTE: The words printed in italics in the Limited Exclusion Provision and in the Broad Exclusion Provision shall apply only in relation to original liability Policies which include a Limited Exclusion Provision or a Broad Exclusion Provision containing those words.

UTAH ASSOCIATION OF COUNTIES INSURANCE MUTUAL

PACKAGE – PROPERTY

Coverage:	Property, including building, contents, mobile equipment, EDP, auto physical damage, etc.
Reinsurer:	Reliance
Limit:	\$100,000,000 each occurrence. This is a combined single limit, per occurrence for all risks of physical loss or damage to all real or personal property and against all risks of direct physical loss, which you have an obligation to provide adequate insurance wherever located. Per schedule of locations on file.
Property:	\$100,000,000 per occurrence See following for specific limits.
Valuation:	Replacement cost except for vehicles and contractors' equipment which are ACV.
Auto Physical Damage:	Values included. (\$1,000 deductible)
Flood:	\$25,000,000 annual general aggregate/sublimit.
Earthquake:	\$25,000,000 annual general aggregate/sublimit.
Extra Expense:	\$1,000,000/sublimit. 40%/80%/100% annual aggregate/sublimit.
EDP Equipment:	Limit included above (includes mechanical breakdown).
EDP Media:	Limit included above.
EDP Extra Expense:	\$50,000 per county.
Valuable Papers:	Limit included above.
Fine Arts:	Per schedule
Accounts Receivable:	\$100,000 per county.
Mobile Equipment:	Limit included above.
Miscellaneous Equipment:	Limit included above.
Builders' Risk:	\$5,000,000 sublimit; actual values must be reported within 90 days.
Joint Loss Agreement:	Included.
Maintenance Deductible:	\$500 per occurrence.

UTAH ASSOCIATION OF COUNTIES INSURANCE MUTUAL

CRIME COVERAGES

Coverage:	Crime and Employee Dishonesty
Reinsurer:	Signet Star
Coverage Parts:	See below

Form	Limit	Terms
Money & Securities (within premises)	\$150,000	Each and every loss
Money & Securities (outside premises)	\$150,000	Each and every loss
Commercial Blanket Bond	\$150,000	Each and every loss; excludes employees known to have committed fraudulent or dishonest acts.
Depositors' Forgery	\$150,000	Each and every loss
Maintenance Deductible	\$500	Per occurrence

Notes:

1. The reporting period for crime losses is one year from expiration.
2. Faithful performance is included in the Commercial Blanket Bond.

UTAH ASSOCIATION OF COUNTIES INSURANCE MUTUAL

PACKAGE – LIABILITY

Coverage:	Third-party Liability including Bodily Injury, Property Damage and Personal Injury.
Reinsurer:	Signet Star
Form:	Occurrence except for Employee Benefit Liability

Coverage Parts	Limit	Terms
General Liability	\$2,000,000 \$3,000,000	Per occurrence Aggregate per member
Law Enforcement Liability	\$2,000,000 \$3,000,000	Per occurrence Aggregate per member
Employee Benefits Liability	\$2,000,000 \$3,000,000	Per occurrence General aggregate per member
Automobile Liability	\$2,000,000	Per occurrence
Auto Medical Payments	\$5,000	Per person
Uninsured Motorists	\$2,000,000	Per occurrence
Underinsured Motorists	\$2,000,000	Per occurrence
Personal Injury Protection	\$2,000,000	Per statutory requirements
Public Officials' Liability	\$2,000,000 \$2,000,000	Per occurrence General aggregate

Notes:

1. Named insured includes any official, trustee, officer, employee or volunteer while acting within the scope of their duties.
2. Termination provisions are provided in the Amended Bylaws.
3. Automatic acquisition clause.
4. Major Exclusions include:¹

a. Pollution Liability (amended)	e. Lead
b. Watercraft over 25 feet	f. Absolute Asbestos
c. Foreign Liability	g. Workers' Compensation
d. Failure to provide water, gas or electricity	h. Aircraft/Airport Liability
5. Retroactive date for Professional Liability is July 1, 1991. Includes unknown prior acts coverage.

¹ This is a partial list of major exclusions.

UTAH ASSOCIATION OF COUNTIES INSURANCE MUTUAL

COVERAGE SUMMARY

PROPERTY COVERAGES	
Program/Underwriting Company	Great American Package
Form Type	Package—Broad Manuscript covering direct physical damage
Limit	\$100,000,000
All Risk (Building/Contents)	Yes
"Per Schedule" vs. Blanket	Coverage is per schedule of locations on file plus 25% of reported values up to policy limit
Flood ¹	Yes
Earthquake ²	Yes
Coinsurance	Not applicable
Valuation Real & Personal Property	<ol style="list-style-type: none"> 1. R/C if within two years, ACV if not 2. Same site waiver (limited) 3. ACV for vacant property
Newly Acquired/Builders Risk (owners interest only)	Covered to property limit—additional premium possible if exceeds 10% of scheduled values
Builders Risk	\$5,000,000 90-days mandatory report
Inland Marine	Covered—must be reported ACV
Property in transit	Yes--\$100,000 automatic limit
Demolition & ICC/Ordinance Deficiency	Ordinance Deficiency to property limit if result from covered loss
Debris Removal	Yes, except foundation removal
EDP/Time Element/Misc.	Yes
Auto Physical Damage	Yes
Lawns, Trees and Shrubs	No—unless decorative indoor
Employees Personal Property	No
Pollution & Contamination	\$250,000 sub-limit under property (general aggregate)

¹ Sub-limit of \$25,000,000 applies to the Mutual as a whole, not per member.

² Sub-limit of \$25,000,000 applies to the Mutual as a whole, not per member.

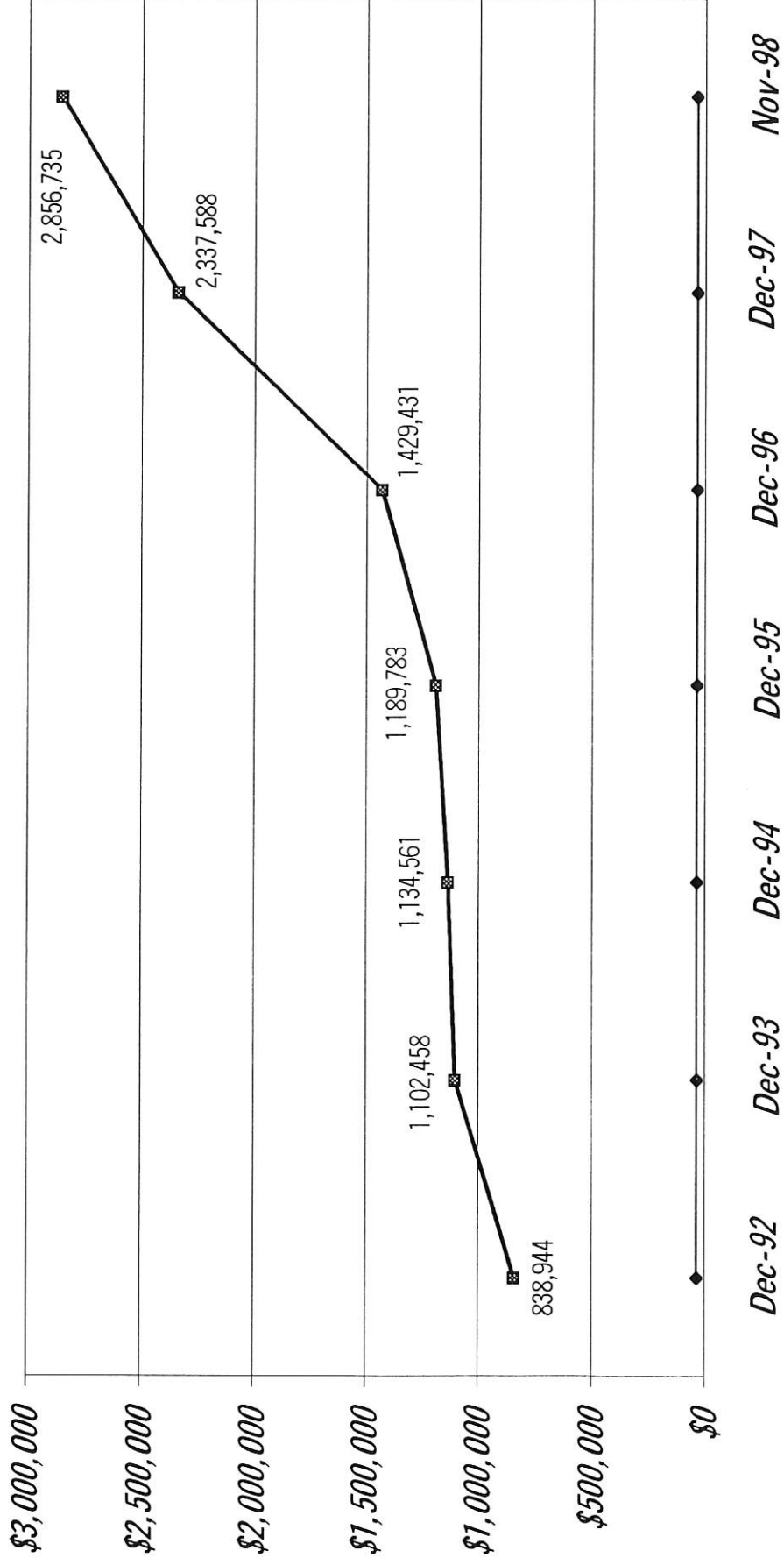
GREAT AMERICAN PACKAGE		
Property Covered:	Buildings	Yes
	Contents	Yes
	Time Element	No
	Loss of Rents	No
	Accounts Receivable	Yes
	Mobile Equipment (ACV)	Yes
	Valuable Papers	Yes
	Fine Arts	Yes
	Extra Expense	Yes
	EDP	Yes
	Auto Physical Damage (ACV)	Yes
	Miscellaneous Property	Yes
	Personal Property of Employees	Yes
	Flood & Earthquake	Yes
Property Exclusions:	Pollution/Contamination	Yes
	Asbestos Removal (except as a result of named peril)	Yes
	Boiler & Machinery	Yes, separate form
	Fidelity	No
	Money & Securities	No
	Land & Water	Yes
	Transmission & Distribution Lines	Yes
	Street and/or Roadways, paved surfaces, bridges	Yes
Liability Exclusions:	Pollution/Contamination/Asbestos	Yes
	Medical Malpractice	Yes
	Public Officials Liability	No
	Employers Liability	Yes
	Inverse Condemnation	No
	Failure to Maintain or Supply (water, gas, electric)	Yes
	Public Transit	No
	Athletic Participation	No
	Athletic Participation – Medical Payment	Yes
	Watercraft	Yes
	Dams	No
	Host/Liquor Liability	No
General Conditions:	Water & Nuclear exclusion	Yes
	CM Authorities exclusion	Yes
	Cancellation clauses	Yes
	One-year policies	Yes

**UTAH ASSOCIATION OF COUNTIES
INSURANCE MUTUAL
1999 RISK MANAGEMENT PROPOSAL**

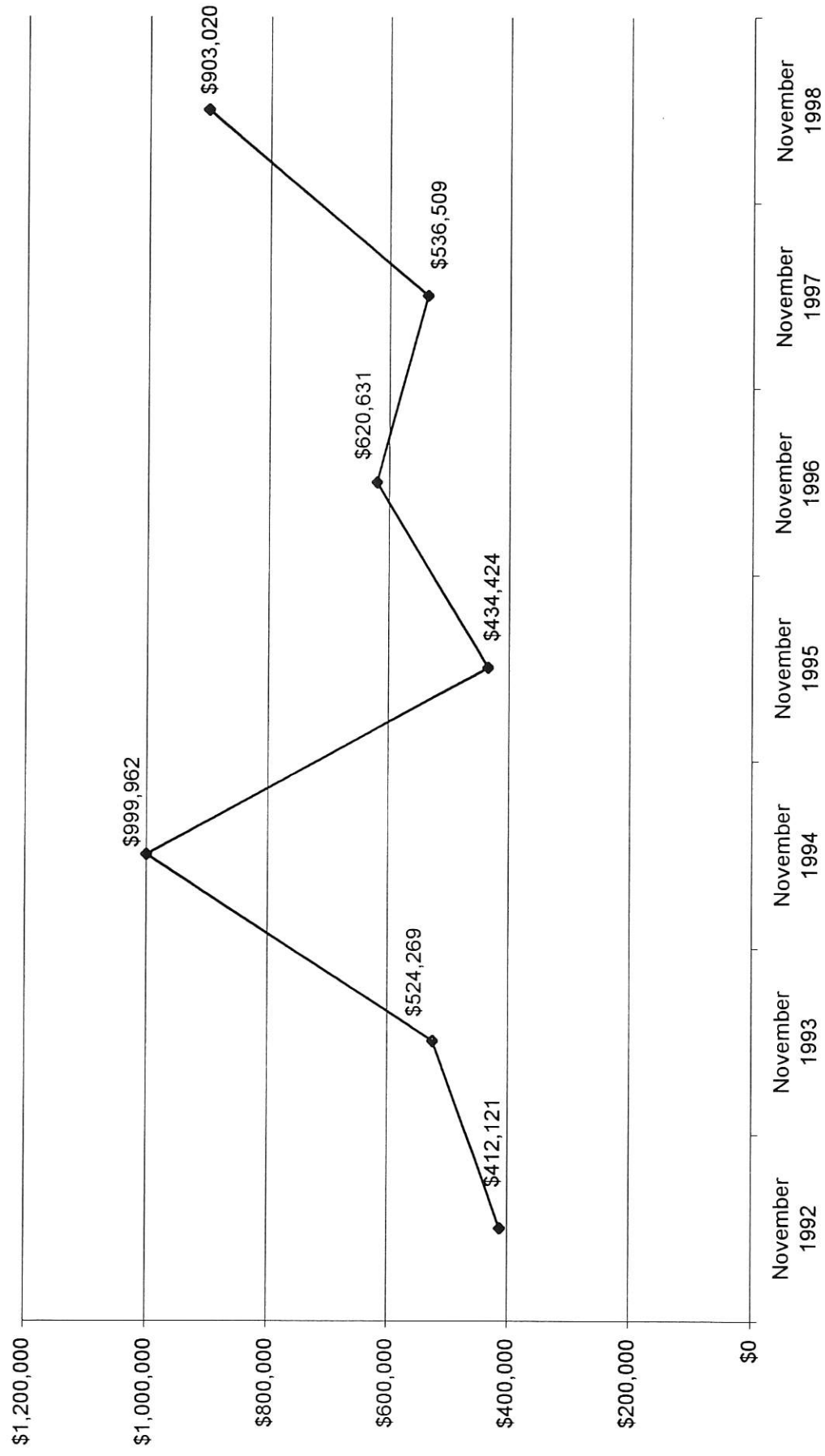
**BOILER & MACHINERY
Hartford Steam Boiler Insurance Co.**

Limit:	\$50,000,000
Sublimits:	
Expediting Expenses	Policy limit
Ammonia Contamination	Policy limit
Water Damage	Policy limit
Hazardous Substance	\$2,000,000
Demolition/Increased Cost	\$1,000,000
Media	\$100,000
Statistical, Accounting, and Management	\$100,000
Computer Equipment	
Broad Comprehensive coverage, including certain electronic control equipment	Yes
Repair or Replacement	Yes
Business Interruption	Policy limit
Extra Expense	Policy limit
Refrigeration Interruption	Policy limit, four-hour waiting period
Service Interruption	Policy limit excludes property perils, four-hour waiting period
Location Insured:	All
Special Provisions:	
Joint Loss Agreement	Yes
Connected Ready for Use	Waived
Earthquake	Excluded
Explosion Exclusion	Modified
Lightning Exclusion	Applicable, if covered elsewhere
Property Perils Exclusions (frost, freeze, flood, ice, snow, sleet, hail, windstorm, etc.)	Included
Automatic Coverage for New Locations	365 days for direct damage, indirect damage \$500,000
Deductible:	\$1,000
Premium:	\$26,296

ANNUAL SURPLUS

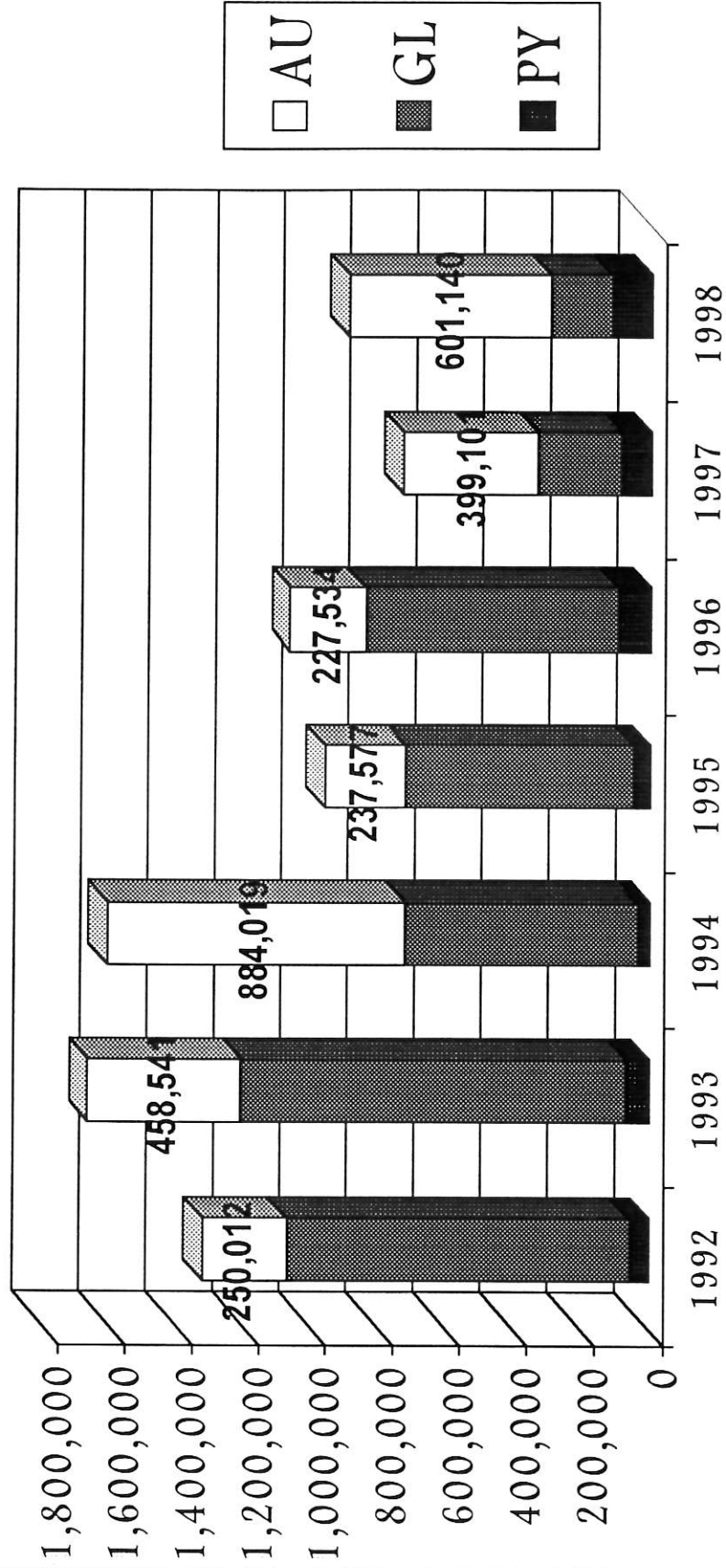


UACIM Total Incurred Comparison for month of November



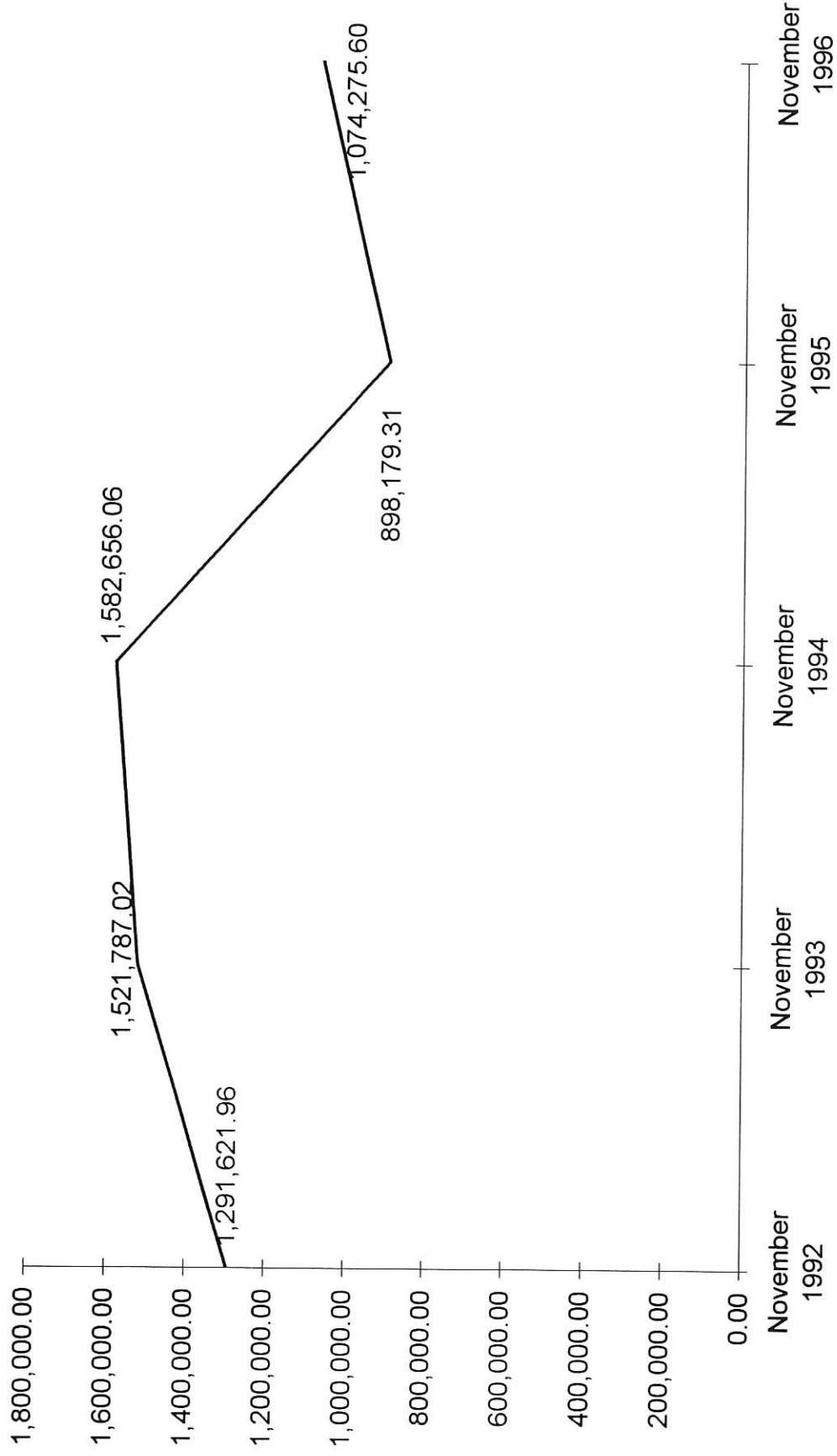
UAC Insurance Mutual

LOSS EXPERIENCE



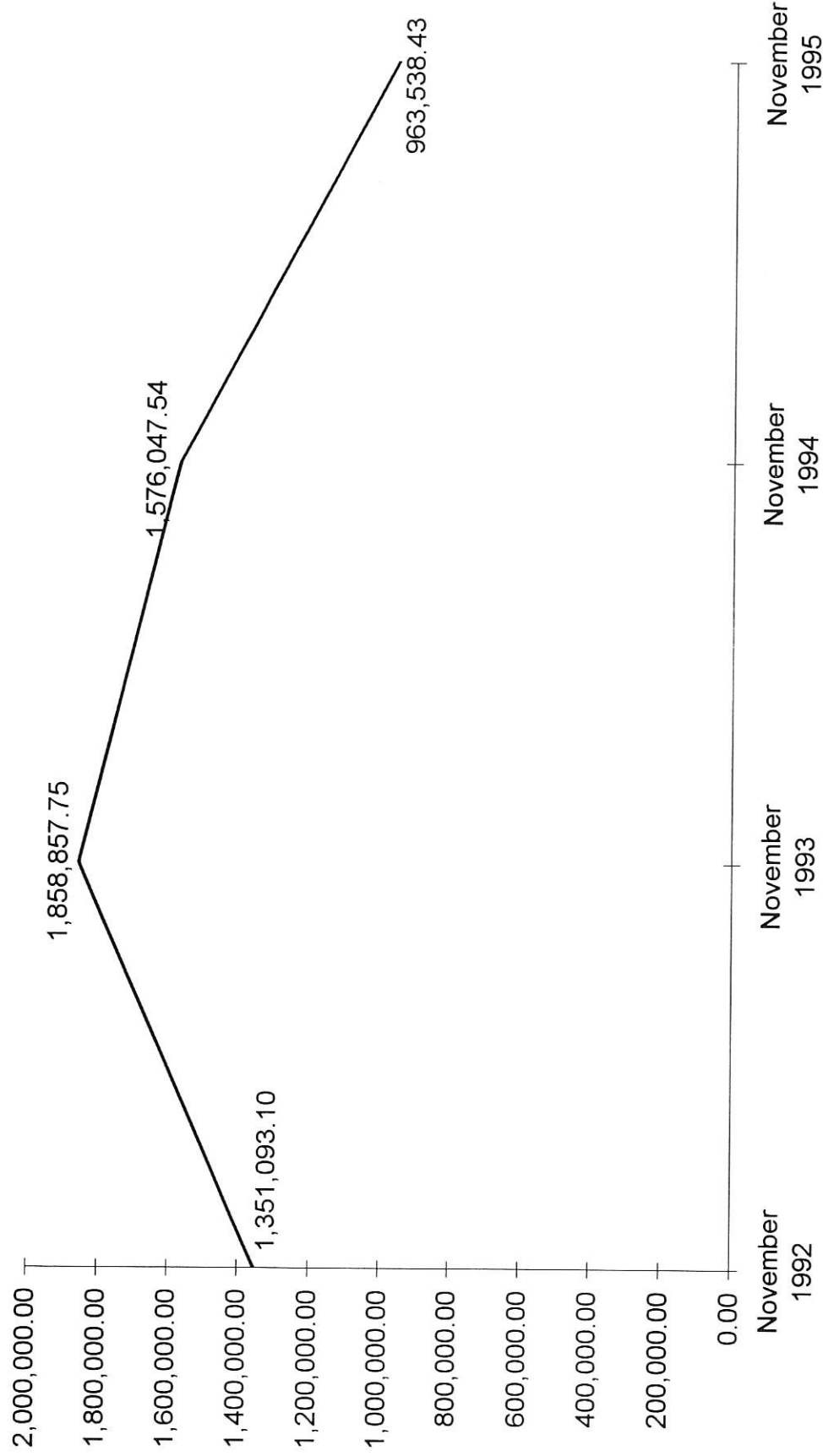
UAC Insurance Mutual

Total Incurred Comparison at 35 Months



UAC Insurance Mutual

Total Incurred Comparison at 47 Months



UACIM BOARD OF TRUSTEES MEETING M I N U T E S

December 17, 1998, 9:30 a.m.
Utah Association of Counties Offices

BOARD MEMBERS PRESENT

Gary Herbert, *President*, Utah County Commissioner
Jerry Hess, *Vice President*, Davis County Deputy Attorney
Dannie McConkie, *Secretary-Treasurer*, Davis County Commissioner
Tony Dearden, Millard County Commissioner
Royal Norman, Box Elder County Commissioner
Tex Olsen, Sevier County Commissioner
Kent Petersen, Emery County Commissioner
Ed Phillips, Millard County Sheriff
Sarah Ann Skanchy, Cache County Council Member
Kent Sundberg, Utah County Deputy Attorney

OTHERS PRESENT

Brent Gardner, UAC Executive Director
Brett Rich, Director, UACIM
Sonya White, UACIM Administrative Assistant
John Chino, GRMS Account Executive
Doug Alexander, McLarens Toplis Claims Manager

CALL to ORDER & WELCOME NEW TRUSTEES

Gary Herbert called the meeting to order, welcomed those in attendance and introduced the newest Members of the Board, Commissioner Royal Norman, Commissioner Kent Petersen and Council Member Sarah Ann Skanchy.

REVIEW of BOARD MEMBERS ABSENT

All Board Members were in attendance.

APPROVAL of MINUTES

The minutes of the Board of Trustees meeting held October 15 and the telephonic conferences held December 10, 1998 were previously sent to the Board Members for review. Dan McConkie made a motion to approve the minutes as written. Chad Johnson seconded the motion, which passed unanimously.

OFFICERS ELECTIONS

Pursuant to Article 6.1 of the Bylaws, *The principal offices of the Board shall be...elected by and from among the Trustees at the first Board meeting following each annual meeting of the Members.* Current officers are Gary Herbert, *President*; Jerry Hess, *Vice President*; Dan McConkie, *Secretary-Treasurer*. Sarah Ann Skanchy made a motion to elect the current officers as constituted. Dan McConkie seconded the motion, which passed unanimously.

ATTENDANCE of COMPETITORS at CONVENTIONS

Brent Gardner explained that representatives from Utah Local Governments Trust (who are direct competitors of the UAC Insurance Mutual) continue to "show up" at the Utah Association of Counties (UAC) Conventions. These conventions are assembled by UAC for their members who include the UACIM member counties. Brent is concerned that the Trust may be trying to solicit business away from UACIM and recommended that the UACIM Board request that the UAC Board restrict competitors from attending UAC Conventions. Sarah Ann Skanchy made a motion recommending that the UAC Board draft a policy concerning the attendance of direct competitors at the UAC Conventions. Royal Norman seconded the motion, which passed. Chad Johnson and Ed Phillips opposed the motion.

APPROVAL of 1999 REINSURANCE AGREEMENTS

Brett Rich reported that he met with representatives from Signet Star and APEX to continue negotiations relating to the reinsurance coverage agreement. They agreed to everything listed in the draft agreement except for the Y2K Exclusion, which is standard through the insurance industry. Brett explained that the reinsurer carrier on the property portion of the policy is Reliance Insurance Company. Reliance, and nearly all property insurers, now insists on Y2K exclusion. Signet Star is the reinsurer on the liability portion of the policy. Brett is negotiating to keep Y2K liability losses silent as to the liability section of the coverage agreement. If counties are taking precautionary steps to upgrade and elevate Y2K problems then they should have coverage. It is almost impossible to calculate actuarially what Y2K losses may occur.

Brett reported that he intends to negotiate coverage for nursing homes to be included in the coverage agreement. The Uintah County Care Center is covered under a separate policy for an additional premium. Brett recommended that, if coverage can be included for an approximate premium of \$5000, the County should not be charged separately—the Board concurred.

Brett explained that the limits under the reinsurance program for liability and DIC (earthquake & flood) have been increased. Jerry Hess made a motion to credit those counties who were charged for the additional limits on their 1999 premium invoice. Chad Johnson seconded the motion, which passed unanimously.

Brett reviewed the draft reinsurance agreement with the Board. Ed Phillips made a motion approving the reinsurance agreement through APEX and the coverage agreement as modified by Brett Rich. Chad Johnson seconded the motion, which passed unanimously.

BROKER REPORT

John Chino had no items to report but explained that he is available to answer any questions relating to the reinsurance program, etc.

DIRECTOR'S REPORT

Brett Rich reviewed an annual surplus chart showing the amounts of surplus per year and the total amount of surplus as of November 1998 at \$2,856,735 (see attachment #1). Brett reviewed a total incurred loss comparison by year chart to show the Board that the 1998 total incurred losses are reaching almost as high as in 1994, which was the worst year for the Mutual (see attachment #2). Brett reviewed a total loss experience chart showing the amounts of incurred losses per year by type (see attachment #3). Loss prevention in the area of automobiles needs to be looked at carefully by the Loss Control Manager.

Brett recommended to the Board that they approve a six-percent increase in the claims administration fee to include improvements to the operating system. McLaren has determined that two people can operate the in-house claims administration for the Mutual. Dan McConkie made a motion to approve the six-percent increase, which has been budgeted for the 1999 year, and directed Brett to clarify the use of outside investigators. Kent Sundberg seconded the motion, which passed unanimously.

Brett reported that he is scheduled to meet with Senator Mansell on Monday regarding the sponsorship of Legislation relating to the *Regulation of Public Agency Insurers*.

Brett reported that Tooele County has reviewed the insurance proposals and will award the contract on Monday. In Brett's discussions with the County, they indicated that Olympus quoted a premium \$20,000 less than the Mutual but the Mutual's program does not have the deductibles and exclusions that are included in the Olympus program. The Board members will contact the Tooele Commissioners to answer any questions prior to their decision on Monday.

SET DATE and TIME for CLOSED MEETING

Chad Johnson made a motion to set the date and time for a closed meeting to begin at 12:10 p.m. on December 17, 1998, to discuss pending or reasonably imminent litigation. Tony Dearden seconded the motion, which passed unanimously.

Sarah Ann Skanchy made a motion to conclude the closed meeting at 12:30 p.m. on December 17, 1998. Jerry Hess seconded the motion, which passed unanimously.

ACTION on LITIGATION MATTERS

Sarah Ann Skanchy made a motion authorizing settlement on claim number 801JUA98841701 and 801JUA98841702 in the amount of \$52,682. Chad Johnson seconded the motion, which passed unanimously.

Tony Dearden made a motion authorizing settlement on claim number 801IRO988429 up to an amount of \$50,000. Kent Petersen seconded the motion, which passed unanimously.

Kent Petersen made a motion authorizing settlement for the Mutual's share on claim number 801BOX955001 in the amount of \$37,500. Sarah Ann Skanchy seconded the motion, which passed unanimously.

Kent Sundberg made a motion authorizing settlement on claim number 801SAJ988434 in the amount of \$67,159.12. Sarah Ann Skanchy seconded the motion, which passed unanimously.

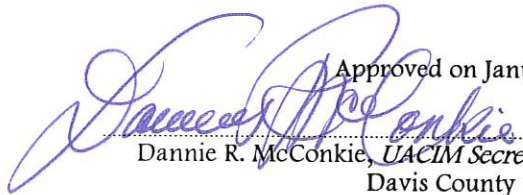
SUMMARY of SEPTEMBER and OCTOBER 1998 FINANCIAL STATEMENTS

Brett Rich reviewed the financial statements for the months ending September and October 1998 with the Board. Section five on page nine of the October statement lists the surplus notes and interest earned to-date of the five counties owed—Davis, Emery, Garfield, San Juan and Washington. Brett is working with the Insurance Department to get the approval of the Commissioner to begin repaying the surplus notes.

OTHER BUSINESS

Brent Gardner reported that it is time to replace the Association's vehicle used by Brett Rich. Dan McConkie made a motion to approve the purchase of a vehicle up to the budgeted amount including either the trade-in value or sale amount. Chad Johnson seconded the motion, which passed unanimously.

The next meeting of the Board of Trustees will be held on January 22, 1999 at 9:30 a.m. at the UAC offices.

Approved on January 22, 1999

Dannie R. McConkie, *UACIM Secretary-Treasurer*
Davis County Commissioner

